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Firm Citing C.I.A. Link Is Charged

By KENNETH B. NOBLE

Special to The New York Times

WASHINGTON, Aug. 24 — The head of a Hawaiian investment firm, who contends that his firm was financed by the Central Intelligence Agency, was accused today by the Securities and Exchange Commission of engaging in a wide-ranging securities fraud.

The S.E.C. charged that Ronald Rewald, and the now defunct firm he founded, Bishop, Baldwin, Rewald, Dillingham & Wong Inc., violated Federal securities laws by making false and misleading statements to investors about Mr. Rewald and how the money was invested.

Mr. Rewald's lawyer, Melvin Belli, could not be reached for comment at his San Francisco office. His press secretary said he was out of town. In the past, Mr. Rewald has defended his actions by saying he was acting for the C.I.A.

The commission's charges arose out of sweeping inquiries by state and Federal authorities into Mr. Rewald's finances and his purported involvement with the intelligence agency.

Parallel investigations are being conducted by the State of Hawaii, the Justice Department, the Federal Bureau of Investigation and the House Energy and Commerce Committee. The inquiries all grow out of the collapse last year of the Bishop firm, which resulted in losses for several hundred investors.

So far Mr. Rewald has settled one action against him, for securities fraud. It was brought a year ago by the S.E.C. He did not admit or deny the allegations, but agreed to refrain from further violations of the Federal securities laws.

S.E.C. officials said they hoped the administrative proceeding would bring about a lifetime ban of Mr. Rewald from the securities industry. The investigation by Hawaii, on charges of theft by deception, could result in his imprisonment.

In court documents presented in the firm's bankruptcy proceeding, Mr. Rewald asserted that he was "a

covert agent of the C.I.A." and a conduit for financing foreign operations.

Kathy Pherson, a spokesman for the C.I.A., declined to answer questions regarding the case. "We do not comment on cases under litigation," she said.

But Thomas Hayes, a court-appointed bankruptcy administrator in charge of the liquidation, said in a telephone interview: "The C.I.A. was involved here, and I know probably better than anyone." The firm, he said, "provided commercial cover for one or more agents, and they were a collection point for a limited amount of telexic and telephonic information."

"And beyond that," Mr. Hayes added, "Rewald himself ingratiated himself to the agents out here, and was able to build an image of a C.I.A. operation bigger than it really was."

The S.E.C.'s settlement of its original case drew complaints from the firm's investors and Mr. Hayes, who called it a "slap on the wrist."

The Energy and Commerce Committee, which oversees the S.E.C., is investigating the commission's handling of the case. Michael Barrett, staff director at the committee, said "It's hard at this point to tell the total extent of the agency's involvement, but it is enough that we feel that it warrants further investigation."

In a \$5.5 million suit against the C.I.A., a group of northern California investors contend that Mr. Rewald had told them that funds placed with the firm were "secured and backed by the full faith and credit" of the Government and were guaranteed by the C.I.A.

James Hill, a San Francisco lawyer who represents several of the investors, said "the gist of the complaint is that this was a C.I.A. operation that resulted in the loss of funds by these investors." He said the trial was scheduled to begin next month.

'Classic Ponzi Scheme'

At the heart of this and other cases is the still unraveling financial operations of Mr. Rewald. Mr. Hayes, the bankruptcy administrator, described Bishop, Baldwin as "a classic Ponzi scheme." A Ponzi scheme is a term for a fraudulent operation in which investors are paid with funds raised from other investors.

The scheme began in 1978, according to court documents, when Mr. Rewald, who had sold sporting goods in Wisconsin, founded Bishop by borrowing the names of three of Hawaii's old-line monied families — Bishop, Baldwin and Dillingham.

He then advertised that the firm had a 40-year history of distinguished investment service, and boasted that its clients included a former President and several Congressmen.

Mr. Rewald presented the firm as having offices throughout the world. According to Mr. Hayes, the bankruptcy administrator, "none of these overseas offices were any more than a mail drop."

Clients in the Military

Among those who did business with Bishop were several high military officers, who have since filed claims against Mr. Rewald. They include Lieut. Gen. Eugene P. Forrester, who retired last year as commanding general of the Army Western Command, based in Honolulu; Lieut. Gen. Arnold Braswell, also retired recently as commander of the Pacific Air Forces, based in Hawaii, and Gen. Hunter Harris, another retired Air Force officer.

Things began to fall apart in August 1983 following a report on Hawaiian television that the state was investigating the company. Among the practices reportedly under investigation were claims by Bishop that deposits in the firm were insured by the Federal Deposit Insurance Corporation. The F.D.I.C. does not insure deposits in investment companies.

Altogether, according to court documents, Bishop, Baldwin took in more than \$20 million in investment accounts before beginning bankruptcy proceedings last August.

Specifically, the S.E.C. charged today that the firm had failed to make statements or had made false statements as to the "use of funds obtained from investors," its business history, the "risks of investing" in the company's securities, Mr. Rewald's "educational background" and his interest in the securities he recommended for purchase.

SEC Orders Hearing On Fraud Charges For Adviser Rewald

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON—The Securities and Exchange Commission ordered administrative hearings on fraud charges against a Honolulu investment adviser accused of pocketing millions of dollars of investors' funds.

The adviser, Ronald R. Rewald, has said that he was working for the Central Intelligence Agency through his now-bankrupt investment firm, Bishop, Baldwin, Rewald, Dillingham & Wong Inc., which also was named in the SEC action. He has said he acted on CIA orders between January 1982 and August 1983, when the SEC says the illegal action took place.

In April, without admitting or denying the charges, Mr. Rewald and the firm consented to a federal court order permanently enjoining them from further violations of the antifraud provisions of securities law. Among other things, they had been accused of selling more than \$17 million in unregistered securities.

The court action ordered an end to the alleged abuses, and "what we now are saying is how should he be punished," according to an SEC spokesman.

Mr. Rewald still faces theft charges brought by the state of Hawaii, where a federal grand jury reportedly also is looking into the case. In Washington, a House committee looking into the government's handling of the case has demanded Justice Department and SEC records in the matter.

According to the SEC, Mr. Rewald and the firm lied or failed to tell investors about several aspects of the business. These included how the funds would be used, the payment of commissions to salesmen, insurance coverage of securities. Mr. Rewald's educational background and the company's interest in securities it recommended that its clients buy.

The firm, which was declared bankrupt last fall, promised investors that Federal Deposit Insurance Corp. insurance would be provided for as much as \$150,000 for each account. However, the FDIC insures only bank accounts. The firm also pooled most clients' funds in one checking account. It also handed out two different sets of financial statements to clients, apparently aimed at different levels of gullibility. One statement put accounts receivable at \$187.9 million and total assets at \$1.42 billion; another listed accounts receivable at \$18.7 million and total assets at \$142 million. Neither statement contained a standard auditor's certification letter.

Mr. Rewald couldn't be reached for comment.